

JAW-SEAN WEY



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POSTWAR SINO-AMERICAN TRADE

by

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PART III: CHINA'S WARTIME FOREIGN TRADE

I. Its Policy and Administrative Organization

Ever since hostilities started in China proper in 1937 and especially after the extension of the war to the Pacific area at the end of 1941, Chinese foreign trade has been greatly decreased. It set back the economy of China at least from ten to fifteen years. On account of the enemy's blockade of the coastal ports, the loss of the resources in the occupied areas and the lack of transportation facilities, China's foreign trade had seriously dropped in volume. But, with appropriate action on the part of the government due to its sound policy in controlling both exports and imports, it succeeded in promoting trade with foreign countries, especially the United States, and laying the foundation for her foreign trade in the future.

China's wartime policy in the field of trade was based on the guiding principle of her wartime national policy which was to carry on the war of resistance on the one hand and to engage in the task of economic reconstruction on the other. Hence, the government adopted such policies as the establishment of an organization to take charge of exchange control and the national monopoly of important commodities. In the export trade, it was stipulated that the government would form a trade readjustment commission for rendering

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assistance to all national and private export businesses. The stipulations were also made that daily necessities would be permitted to be shipped in as usual and at reduced customs tariffs.

Judging from the first five years of work, it was evident that the Chinese Government had endeavored to do its best in promoting foreign trade despite the growing difficulties. Thus, one realizes that wartime China was mobilizing her utmost efforts to restrict non-essential imports, to facilitate production and shipment of the main items of exports to offset temporarily part of her unfavorable trade balance and to lay the foundation for future trade expansion. The first effect of the Pacific War on China's foreign trade was the repeal of control measures concerning the collecting, purchasing, storing and transporting of wood oil. Special duties on regional tea transactions were simultaneously abolished. Then followed the abolishing of monopoly and consumption taxes on salt, matches and tobacco late in January, 1945. It was expected that the abolition of these taxes would stimulate distribution and transportation of commodities.

In order to carry on the nation's trade policy, in October, 1937, a Trade Readjustment Commission was set up under the National Military Council. Its primary objects were to render financial aid to and to provide transport

facilities for the Chinese exporters who found it difficult to carry on their business on account of the military operations. In February, 1938, the Trade Readjustment Commission was reorganized and was placed under the Ministry of Finance with a new name: Foreign Trade Commission. Its main functions ³² are:

1. To regulate and control foreign exchange and both import and export trade.
2. To supervise the trading operations under government monopoly.
3. To give assistance to private exporters in the shipment of exports.
4. To make charge of government purchase of supplies and the implementation of barter agreements.
5. To regulate matters related to the supply and demand of various kinds of resources.

Actually the Commission had two separate tasks. The first was to carry out, through its trading establishments, the barter agreements for the government by effecting deliveries of agricultural products in payment of foreign loans and credits. The second was to promote trade with friendly nations by various ways and means. The Commission was composed of a number of commissioners. Nine of them formed the standing committee with a chairman, and under him five departments--import trade, export trade, finance, research and general affairs. Besides, under the Commission,

there were a promotion commission for the production and marketing of agricultural exports and the three research institutes of tea, silk, and wood oil.

To encourage private enterprise in the development of foreign trade, the Ministry of Finance of China announced ³³ the following regulations in July, 1944:

1. All companies desiring to engage in foreign trade should, in addition to registering with the Ministry of Economic Affairs under the Companies Act, submit certificates of their trade guild or Chamber of Commerce to the Foreign Trade Commission and obtain registration certificates.
2. Companies engaging in foreign trade and registered with the Commission may apply to the Ministry of Finance for documents covering commodities of which the importation and exportation are subject to control.
3. The Commission may assist companies registered with it to get in touch with customers and sources of supply in foreign countries and may supply international commercial information.
4. Companies registered with the Commission may apply to it for assistance in obtaining shipping space for exports and imports, as well as necessary permits.
5. Companies registered with the Commission may request its assistance in obtaining loans from the Government banks.
6. Companies registered with the Commission may engage in import and export trade with the encouragement of the Government.

In reviewing these regulations, Foreign Commerce Weekly, a publication of the U. S. Department of Commerce, comments

33. "Foreign Trade News", China-America Council of Commerce and Industry, N. Y., August, 1944

that "informed observers believe that the Foreign Trade Commission, through the Chinese Government representatives or agencies, might be of some assistance to exporters and importers in arranging for shipping space, . . . Registration with the Foreign Trade Commission is not requisite to engaging in foreign trade, but is merely encouraged as a means of obtaining access to the Commission's facilities."

There were three important trading companies under the supervision and control of the Commission namely the Foo Shing Trading Corporation, the Fu Hua Trading Company, and the China National Tea Corporation.

The Foo Shing Trading Corporation was organized after the conclusion of the Wood Oil Loan in 1938 with the United States for the purpose of purchasing and delivering the stipulated amount of wood oil each year in fulfillment of the loan agreement. The Company also handled specific government purchases and exported all leading agricultural exports under the government control except tea.

The Fu Hua Trading Company was to handle the government's trade in connection with the promotion of freight transportation along the Yangtze and the Hankow-Canton Railway. It acted as a purchasing agency for the Government in foreign countries. But in 1942, it was ordered to amalgamate with the Foo Shing Trading Corporation.

The China National Tea Corporation formerly was

financed by the government and by private merchants. Since 1940, the government took it over and made it a government concern under the direction of the Commission. Its main functions were to own, to manage and to assist private owners in managing tea estates and factories; to promote tea plantation and production; to purchase, transport and export tea; and to extend loans to tea planters. ~~major~~ ⁱⁿ alliance, the Chinese Government was able to obtain foreign loans by such an effective control of trades as was deemed necessary to meet urgent need of fulfilling her contract obligation.

Control of wood oil did not begin until 1939 following the conclusion of an American loan to China which was to be repaid with the proceeds of sales of wood oil exported to the United States. This is a typical example. In other words, the government was on hand to monopolize certain exports such as tea, wood oil, bristles and minerals.

The export of essentials of war and daily necessities were absolutely prohibited and it was absolutely forbidden to ship commodities to places under enemy control. Consequently, commodities which were either restricted or controlled were allowed to be exported with special permission from the authorities concerned. Exporters had to apply to the Foreign Trade Commission for an examination of goods exported, to the Export and Import License Commission of

II. Control of Exports and Imports

Control of foreign trade in wartime was considered one of the necessary policies in many nations. China, of course, was no exception. China's export trade, ever since the war began, has been subject, in the main, to state control. Under the barter arrangements with her major allies, the Chinese Government was able to obtain foreign loans by such an effective control of trades as was deemed necessary to meet urgent need of fulfilling her contract obligation.

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the Ministry of Finance for a special permit, and finally to the Exchange Control Commission to pledge the sale of exchange before the shipment of articles.

The control of foreign exchange was another major policy. The Chinese Government centralized the sales of foreign exchange in the Central Bank of China and established an Exchange Examining Committee. All payments for Chinese exports should be made in foreign currencies and the foreign exchange so obtained should be sold to the Chinese Government banks. The list of commodities subject to the restrictions of exchange control was modified from time to time. Originally there were thirteen categories of export commodities apart from wood oil, tea, and bristles. Later, the Foreign Trade Commission mapped out comprehensive plans for the effective carrying out of the task of handling four main items: wood oil, wool, silk, and tea. Subsidies were granted to a number of agricultural and scientific organizations to work on certain technical problems.

Regulation of imports began shortly after the War in 1937. Essentials of war and daily necessities were encouraged by reducing their custom duties; semi-essentials were permitted to enter subject to license; but the luxuries and non-essentials were put on a prohibition list. The reduction of import duties for wartime essentials, begun in September, 1939, is still in effect with minor revisions.

Encouragement of the importation of machinery and other implements and restrictions on the importation of non-essentials were the main points of China's wartime importation policy. To be concrete, importation of such vital articles as iron, steel, machinery and tools, ships, petroleum products, chemicals, scientific instruments, and many other commodities directly or indirectly serving the war was encouraged not only by total or partial exemption from custom duties, but also by providing importers with the necessary amount of exchange for purchase and shipment of the articles.

Importation of unnecessary commodities for purpose of facilitating the work of price control was permitted. However, petitions for permits of such purchases were to be made only by government agencies and to be determined by the Ministries concerned. The list included: luxuries which are neither daily necessities nor resources needed for economic reconstruction or war prosecution; semi-luxuries which could not be considered as daily necessities in the time of war and for which substitutes of native products are available; commodities which, though do not belong to luxuries, drain large amounts of exchange every year and importation of which tends to expand; and cotton manufactures, 80% of which was in the past consigned from enemy countries although they are daily necessities.

On October 27, 1938, the importation of enemy goods were banned. They were: goods from an enemy country, or its colonies or controlled territories; goods from factories or firms operated by enemy nationals outside of the areas mentioned; goods from enemy invested enterprises outside of the areas mentioned. With the exception of rice, grain, cotton yarn and flour, all other enemy goods were banned from importation. ~~which accounted for 3,500,000 quintals valued at~~

~~the~~ The following two main lines of commodities were exempted from import prohibition and were made as imports subject to special permission:

~~of the amount~~ A. ~~which accounted for 3,500,000 quintals valued at~~ War materials and military supplies, aeronautical instruments, ~~the amount~~ narcotic drugs, etc., etc. However, ~~which accounted for 3,500,000 quintals valued at~~ it was specified that only government organizations or public institutions were entitled to file ~~the amount~~ petitions.

~~which accounted for 3,500,000 quintals valued at~~ B. Fine wool, cosmetics cotton and artificial silk, tobacco, wine and spirits, cosmetics cotton products and sundries, regined timber and manufactures thereof, etc.

~~which accounted for 3,500,000 quintals valued at~~ values and rose to 10,000,000 in 1941.

In the third place come gasoline and other liquid fuels. The average import value of gasoline during the years between 1938 and 1941 was CHN40,000,000. Analysis showed that gasoline decreased from the prewar level of over 50,000,000 gallons to about 30,000,000 gallons. It was taken for granted that the amount of gasoline actually

5: China Year Book, 1941 p. 776

6: China Handbook, 1937-1938, the MacMillan Co. p. 535

7: China Handbook, 1937-1938, the MacMillan Co. p. 535

III. Principal Import and Export Commodities

In spite of her difficulties, the blockade of all her sea routes and devastation of many of her rich provinces, China had managed to maintain a considerable volume of foreign trade. Among the chief imports, foodstuffs ranked first. The value rose from CH\$50,000,000 in 1937 to more than CH\$500,000,000 in the years following. In 1940 imports of rice alone accounted for 6,500,000 quintals valued at CH\$171,000,000. There was a parallel advance in the imports of wheat flour. The shipments amounted to 3,200,000 quintals in 1940.

Cotton and cotton products came next in value. Imports of the commodities in 1940 amounted to 2,400,000 quintals valued at CH\$262,000,000. The leading sources of supply were India, the United States, and Brazil. Import of cotton products in 1940 amounted to over CH\$40,000,000 in value and rose to CH\$81,000,000 in 1941.

In the third place came gasoline and other liquid fuels. The average import value of gasoline during the years between 1938 and 1941 was CH\$40,000,000. Analysis showed that gasoline decreased from the pre-war level of over 50,000,000 gallons to about 30,000,000 gallons. It was taken for granted that the amount of gasoline actually

35. China Year Book, 1943 p. 470

36. China's Handbook, 1937-1943, the MacMillan Co. p. 525

37. China's Handbook, 1937-1943, the MacMillan Co. p. 538

imported was bigger than the figures given by the custom reports if we included also imports by smuggling and other illegal processes. Other important imports were sugar, machinery, tools, paper and coal.

The following table shows the total quantities of imported commodities from January 1938, to September, 1941: ³⁸

COMMODITIES	UNIT	TOTAL
Rice and Paddy	1,000 quintals	23,192
Wheat Flour	" "	13,243
Raw Cotton	" "	7,718
Cotton Yarn	" "	389
Gasoline	1,000 gallons	130,716
Kerosene	" "	228,290
Liquid Fuel	" "	720,508

Regarding the export commodities, the Foreign Trade Commission began in 1938 to engage in the purchase and storing of a certain quantity of exportable commodities. Later, it was announced that a number of specified agricultural products were to be purchased. The following table shows the value and quantity of the purchases made by the Commission from January 1938 to September, 1941: ³⁹

COMMODITIES	UNIT	QUANTITY	VALUE(CH\$)
Wood Oil	quintals	1,298,490	129,982,538
Tea	"	645,087	114,744,566
Bristles	"	30,788	66,004,882
Raw Silk and Silk Cocoons	"	49,478	54,904,434
Wool and Hair	"	213,490	32,129,675
Hides, Furs and Skins	packages	62	
" "	quintals	18,480	
" "	sq. feet	113,607	
" "	pieces	6,530,772	18,225,967
Ramie	quintals	14,353	1,842,160
Sundries			8,842,681

38. China Year Book, 1940, p.456

39. "China After Five Years of War", Chinese News Service, N.Y., 1942 p.134

The following table shows the total quantities of Commodities exported by the Commission from January, 1938 to September, 1941:

COMMODITIES	UNIT	TOTAL QUANTITIES
Wood Oil	1,000 tons	67,099,390
Tea	Half chests	1,423,932
Tea	1,000 tons	18,700,000
Bristles	1,000 tons	1,799,097
Wool and Hair	1,000 tons	11,672,220
Raw Silk and Silk Cocoons	" "	661,275
" " " "	Packages	1,008
Ramie	Bundles	2,679
Ramie	1,000 tons	341,566
Hides, furs and Skins	Pieces	1,460,651
" " " "	1,000 tons	475,006
Black Brick Tea	" "	2,697,551
" " "	Pieces	280,408
Pig Intestines	Groups	143
" "	Casks	4
" "	Sets	896,275
" "	1,000 tons	11,349
Sundries	" "	3,462,177

Following tables show China's principal exports and imports from 1936-1941. A glance over the lists will suffice to show what China's exports are and what will be needed in her future foreign trade.

40. "China After Five Years of War", Chinese News Service, N.Y.
1942, p.136

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CHINA'S PRINCIPAL EXPORTS (1936-41)
(NC \$ '000 omitted.)

DESCRIPTION OF GOODS	UNIT OF QUANTITY	1936		1937	
		QUANTITY	VALUE	QUANTITY	VALUE
Tea	Quintals	372,843	30,662	406,572	30,787
Wood Oil	"	867,383	73,379	1,029,789	89,846
Animal Hair	Kilograms	18,760,231	20,022	13,744,272	23,499
Bristles	"	5,264,800	25,304	4,044,900	27,921
Silk Cocoons	"	134,152	880	677,560	3,431
Silk	"	8,905,089	43,634	8,979,031	53,192
Nutgalls	Quintals	42,599	1,491	50,801	1,791
Goat Skin	Sheets	10,350,205	14,489	11,323,719	19,948
Hides	Quintals	1,48,276	10,706	149,596	12,890
Animal Intestines	"	32,086	10,894	27,503	12,111
Ramie	"	197,427	7,962	132,998	5,074
Cotton	"	368,426	28,198	636,529	37,556
Cotton Yarn	"	89,885	12,398	37,913	4,845
Egg and Egg Products	---	41,802	---	52,813	
Feathers	Quintals	47,982	3,238	49,013	9,042
Rhubarb	"	20,779	1,125	21,790	1,268
Tea Oil	"	37,905	1,407	129,038	6,098
Tallow Vegetable	"	11,935	506	33,455	1,477
Coal (including Ships') Tons	Hand-Made Embroideries	1,374,942	11,025	1,834,566	13,533
Silk Piecegoods	Kilograms	31,384	4,075	40,750	
Wolfram	Quintals	534,007	7,438	1,142,573	12,589
Antimony	"	70,499	9,342	165,178	40,759
Tin Slabs	"	173,116	9,887	153,884	11,446
Straw Braid	"	112,604	26,769	130,772	39,717
Sundry	---	14,217	2,291	11,063	1,847
		277,509	---	284,346	
TOTAL	---	705,741	---	838,256	

CHINA'S PRINCIPAL EXPORTS (1936-41) ⁴⁴
(NC \$ '000 omitted.)

	1938 QUANTITY	1938 VALUE	1939 QUANTITY	1939 VALUE	1940 QUANTITY	1940 VALUE	1941 (January-October) QUANTITY	1941 VALUE
1,551,167	111,915	105,769	4,513	11,732	19,042	7,143	3,778	14,486
131,759	22,883	328,769	18,731	11,732	20,227	9,422	7,780	15,900
		118,095	14,041	6,411	7,143	9,422	70,780	159,686
35,859	62,275	30,010	30,010	21,598	16,240	28,090	21,932	55,528
21,147	1,115	6,727	8,770	24,477	4,475	20,653	5,958	
61,584	2,297	21,032	1,365	20,979	3,625	2,703	5,908	
1,633	46	24,793	1,137	5,56	5			
2,077,409	14,420	11,768	383	4,838,009	68,305	4,881,704	100,867	
		2,964,603	29,141	49,559	76,912		76,048	
				19,642	586,930	1,057,024	49,461	
998,427	37,034	1,385,593	10,533	50,492	28,737	13,616	84,699	83,736
123,577	106,891	106,891	106,891	106,891	5,276	9,024	10,105	4,921
79,834	6,100	67,599	5,276	5,276	28,745	28,269	57,281	90,414
117,916	35,987	105,890	32,793	63,493	16,835	5,557	7,250	2,184
9,616	1,967	23,011	5,426	15,426	895,903	895,903	1,317,697	
		243,507	413,359					
TOTAL	---	762,641	---	1,027,247	---	1,970,121	---	2,577,443

CHINA'S PRINCIPAL IMPORTS (1936-41)
 (NG \$ '000 omitted.) 416

DESCRIPTION OF GOODS	UNIT OF QUANTITY	QUANTITY	1936 VALUE		QUANTITY	1937 VALUE
			1936	1937		
Wheat Flour*	1,000 Quintals	310	4,669	304	6,183	
Wheat	"	1,168	11,848	430	6,071	
Rice**	"	3,103	26,736	3,457	40,781	
Tobacco	"	114	14,998	169	19,661	
Cigarettes	1,000,000's	97	1,273	142	1,348	
Sugar	1,000 Quintals	--	20,535	--	22,031	
Diesel Oil	Tons	313,480	16,175	258,997	14,968	
Kerosene	1,000 Am. Gallons	104,427	39,885	118,346	47,860	
Gasoline	"	45,509	22,730	54,786	27,613	
Machinery	"	59,549	50,471	--	64,632	
Vehicles	--	--	--	--	40,233	
Electrical Appliances	--	--	--	--	12,253	
Iron and Steel	--	92,456	--	108,539		
Lubricating Oil	1,000 Am. Gallons	13,122	7,847	12,512	8,724	
Woolen Piecegoods	--	--	10,105	--	10,284	
Cotton Piecegoods	--	--	12,090	--	14,669	
Cotton Yarn	1,000 Quintals	6	1,629	11	2,696	
Cotton	"	407	36,147	153	16,005	
Rubber and Manu-						
factures thereof	--					
Cement	1,000 Quintals	16,005	--	17,312		
Coal	1,000 Tons	349	797	254	544	
Paper	--	561	6,442	427	4,988	
Sundry	--	--	51,849	--	59,134	
		425,977	--	407,069		
TOTAL	--	941,545	--	953,386		

*Including Flour, n.o.r. **Including Unhusked Rice ***Excluding Saws

(NGC 6000 Game : 7)

* Including Flour, N.O.R. ** Including Unhusked Rice *** Excluding Saws

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IV. American Loans to China

During wartime, China had obtained foreign loans, chiefly from the United States totalling US\$747,800,000 excluding three loans from the U.S.S.R. totalling US\$250,000,000 and Great Britain totalling US\$626,359,000. Among these loans, the first one was the Export-Import Bank loan of US\$25,000,000. This loan announced in December, 1938, with a view to bolstering China's morale after the fall of Canton and Hankow, was limited to the purchase of United States products of a non-military nature through the Universal Trading Corporations, a Chinese Government enterprise organized under New York State Corporation laws. It was to be repaid by the sale of Chinese wood oil in the United States. The second loan of US\$20,000,000, announced in March, 1940, also covered the purchase of non-military supplies and was to be paid by the sale in the United States of Yuanantin. The third, announced in September, 1940, totalling US\$25,000,000 granted for the purpose of meeting China's purchases of supplies from the United States was repayable through the sale of tungsten.

Here it should be noticed that the first loan, the so called Wood Oil Credit Loan, was given in December 1938 while the United States was still a neutral in the Sino-Japanese War. The loan was entirely repaid ahead of time,

The following is a list of American loans to China
 42
 from 1938 to 1942:

Wood Oil Credit Loan (dated Dec., 1938)	US\$25,000,000	Purchase of American motor vehicles, gasoline and agricultural and industrial products
Credit Loan (dated March, 1939)	US\$12,800,000	Purchase of various products in the United States
Aircraft Factory Loan (dated March, 1939)	US\$15,000,000	Purchase of Aircraft motor, etc., etc.
Tin Credit Loan (dated April, 1940)	US\$20,000,000	Purchase of American agricultural and industrial products
Tungsten Credit Loan (dated Sept., 1940)	US\$25,000,000	Stabilization of foreign exchange
New Credit Loan (dated Nov., 1940)	US\$100,000,000	Half for purchase of supplies and half for adjustment of Chinese currency
Gold Credit Loan (dated Feb., 1941)	US\$50,000,000	
New Credit Loan (dated Feb., 1942)	US\$500,000,000	
Total-----	US\$747,800,000	

42. "China After Five Years of War", Chinese News Service, N. Y., 1942

It should be noticed too that shortly after the conclusion of the Wood Oil Loan with the United States, China worked out a "Five-year Plan for the development of principal agricultural and exportable products". This plan has been in force since the summer of 1940. Specific emphasis is still placed on promoting the production of wood oil in the Southwest, wool in the Northwest, tea and silk in the Southeast, and silk and bristles in Szechwan.

Moreover, one can see two outstanding advantages from these loans. Firstly, as China is an agricultural country they will stimulate and promote agricultural economic development. Secondly, China's best security for foreign loans lay in her principal exportable agricultural products. All in all, when these loans were concluded, it gave benefits to both the debtor and creditor countries because the latter could thereby dispose of a part of their surplus property which would otherwise have remained idle. One thing is certain: in these loans, both countries demonstrate their spirit of economic collaboration, not only in war, but also in the postwar trade.

PART IV: RECENT EVENTS AFFECTING SINO-AMERICAN TRADE

I. The Quest for International Monetary Stabilization

The most serious problem that gives rise to economic disequilibrium is fluctuation in the value of money. Such fluctuation prevents the expansion of trade between countries. Therefore, a sound monetary system is most essential to economic equilibrium. There are two kinds of monetary system: monetary nationalism and international monetary system.

According to the doctrine of monetary nationalism, a country's share in the world's supply of money should not be left to be determined by the same principles and the same mechanism as those which determine the relative amounts of money in its different regions and localities. An international monetary system is one under which the whole ^{world} possesses a homogeneous currency such as obtains within separate countries and where its flow between regions is left to be determined by the results of the action of all individuals. That homogeneous monetary system is characterized by the fact that each unit of the circulating medium of each country could equally be used for payments in the other countries and for this purpose could be bodily transferred into the currency of that country. Hence, from this point of view, it is only with the growth of the central banking system that all the inhabitants of a country come to be dependent on the same

amount of more liquid asset held for them collectively as a national reserve. Any differences between inter-local or international movements of money which only arises as a consequence of the variability of exchange rates cannot themselves be regarded as a justification for the existence of separate monetary system.⁴³

That a sound international monetary policy is badly needed is beyond question. It is the best way to bring about the resumption of orderly international trade---the ending of arbitrary exchange controls, bilateralism, discrimination, and direct national control or government monopolizing of foreign trade.

But, the crux of the monetary problem lies in the clash between internal and international requirements. The narrow issue of possible conflict raises the much broader question of the choice between using the monetary mechanism to serve the needs of the nation's internal economic development and of meeting the sometimes exacting demands of the international situation. The question is not the narrow one of when, and on what conditions, or even whether we should return to gold standard, but the broader one of whether it is advisable to return to a fully international standard at all.

If the above view is sound, the world should need a stable international monetary unit. That is the reason for

⁴³. See Slichter, Sumner H.: "Toward Stability", Holt Co., N. Y., 1934, Chapter I

the establishment of an international bank. It is authorized to organize a clearing system for gold transactions between central banks. The International Bank will operate a managed international gold standard with a view to maintaining stability of world prices, the value of gold itself being regulated in exactly the same manner as would paper currency if gold were entirely eliminated.⁴⁴

The essential element of the so-called international gold standard was the maintenance of stable exchange rates between the currencies, arising from the fact that each currency fixed its standard in terms of a given weight of gold. In practice, it is very useful. It carried reassurance to many people and its use provided an acid test of monetary policy---the flow of gold from an unwisely managed credit system is a visible indication that all is not well with the national economy.⁴⁵

Even though gold standard is requested, yet the following four points are still essential without which no monetary system can be satisfactory:

1. An adequate monetary standard, which means a real gold standard embracing three factors: a) the standard unit of valuation must be a unit of fixed weight of gold of specified fineness; b) there must be a free movement of gold into and out of the currency system; and c) there must be free movement of gold into and out of the country;

⁴⁴. Aldrich, Winthrop W.: "The Problem of Postwar Monetary Stabilization", Chase National Bank, N. Y., 1943

⁴⁵. Condliffe, J. B.: "Exchange Stabilization", The Committee on International Economic Policy, 1945, No. 9, p. 38

2. Elastic bank notes issued by a central bank free from government control and the influence of politics;
3. A satisfactory subsidiary coinage; and
4. A deposit or cheque currency based on bank deposits in free banking system.

As the quest for monetary stabilization is so important, many plans have been offered during the past few years. To name a few: Herbert Feis's Plan is a suggestion for what might be termed a "Trade Stabilization Budget or Fund"; the Twentieth Century Economic System requires the participating countries to agree on a series of exchange rates; the Pool Clearing, which is similar to the Twentieth Century System Plan, requires each country to establish an international clearing fund office; the Canadian Expert's Exchange Union provides the Union to fix rates at which it will buy and sell one member's currency for another's; lastly, the two well-known plans--the British Plan and the American Plan.

The British Plan is known as the Keynes's Plan. It proposes to establish a currency union, International Clearing Union, based on international bank money, BANCOR, in terms of gold and accepted as gold's equivalent for settling international balances. The American Plan generally referred to as the White Plan, has the main purpose of establishing a stabilization fund. The two plans have their similarities and differences.

Here are the main field of their similarities:

1. Both plans have been devised to deal with exactly the same problem, the problem of how the nations after the war are to settle any outstanding balances arising from their trade and intercourse with each other.
2. Both have a virtually identical definition of the problems to be solved. They envisage a world in which many countries would naturally have, in some years at least, net unfavorable balance of payments, but in which they will have difficulty in possessing themselves by means of international payment acceptable to those with "favorable balances".
3. Both are based on the realization that it is not enough merely to provide means for relieving the necessities of deficit countries.
4. Both acknowledge that it is impossible to have any form of international system without laying some obligations and some discipline constraints on the member nations.
5. Both are based on the assumption that with provision for surmounting critical periods and with an acceptable degree of international discipline currency equilibrium will be possible in the postwar world.
6. Both aim at the removal of existing restrictions on international trade or genuine long-term investment.

The chief technical differences between the two plans are:

A. General technical nature: The central idea of the American Plan is that a large fund should be collected at the outset from which deficit countries could acquire the supply of foreign currency they require to meet their obligations.

The British Plan, by contrast, applies the banking principle

to international transactions. Under the American Plan, the first act of every member nation would be to pay out its contribution to the fund, part of which would have to be in gold. Under the British Plan, no nation has to make any specific act of contribution; it is only asked to leave on any net credit balances that may accrue to it after the acceptance of the scheme.

B. Participation and control: Under the British Plan, the quota would be based on the total of imports and exports. Under the American Plan, the quota would be based on a country's holdings of gold and foreign exchange.

C. Unitas and Bancor: Under the American Plan, one unitas would be equal to 137 1/2 grains of fine gold (10 United States dollars). Bancor is intended to be a real international currency. It is the essence of the British Plan that bancor should be the legal tender between nations.

D. The role of gold: The connection of gold is much more direct and rigid in the American Plan than in the British Plan.

E. Exchange rates: The American Plan provides that changes in these rates shall be considered only when essentials only when essentials to correction of a fundamental disequilibrium and be permitted only with the approval of 4/5 of member votes. The British Plan contemplates frequent changes in exchange rates.

F. Equilibrating adjustments: The British Plan is more specific. The clearing union may recommend to deficit countries currency devaluation; control of capital exports, surrender of gold or other liquid balances, and any internal reassurances affecting its domestic economy which may appear to be appropriate to restore the equilibrium of its international balance. Under the American Plan, a deficit country is to agree "to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country balance of payments".

G. Deficits and surpluses: The British Plan lays considerable emphasis upon the equal responsibility of deficit and surplus countries for international exchange disequilibrium. The American Plan contains no argument of this tenor.

H. Exchange control: The American Plan is explicit in that member countries are "to abandon all restrictions and controls over foreign exchange transactions with other member countries and not to impose any additional restrictions without the approval of the fund". The attitude of the British Plan is less clear. The general intention is said to be made "blocked balance and bilateral clearing" unnecessary.

I. Sterling area: The British Plan makes specific reservation for arrangements such as the existing sterling area. It says "there is no reason why such countries should not be allowed a double position". The American Plan makes no specific arrangements.

II. Bretton Woods Conference and Its Influence

Two Plans, Mr. White's and Lord Keynes's, were made the basis of the Bretton Woods Conference which began on July 1, 1944, and ended on July 22, 1944, with the unanimous adoption by the delegates of 44 nations of the programs for both the International Monetary Fund and the Bank for Reconstruction and Development. The ratification of the agreements by the governments of all participating countries, except Russia, means the establishing of the cornerstone for international economic cooperation. In so doing it will have a decisive influence on the international trade of the whole world.

The International Monetary Fund aims at the restoration of conditions under which transactions arising out of foreign trade could be settled smoothly with the elimination of unnecessary risks and harmful pressures on the economies of participating countries. It will promote exchange stability, maintain orderly exchange arrangements among members, and avoid competitive exchange depreciation. It gives confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balance of payments without resorting to measures harmful to national or international prosperity.

The International Bank for Reconstruction and Development

is designed for the purpose of making long-term productive foreign loans to member countries out of its own funds or out of funds borrowed from private investors, and of guaranteeing such loans made through the investment market. All members would share the risks in proportion to their participation. It is intended to assure funds for the reconstruction of devastated countries and for the development of resources in all member countries.

The two institutions would be mutually supplementary. The operations of the Fund would reduce the exchange risks involved in international investment, and the Bank would provide help to countries in developing their economies in such a way as to keep their international payments in balance.

The main points of the agreements of the Fund are:

1. Each member shall be assigned a quota, subject to review and adjustment every five years with the member's consent. Each member shall pay in gold, as a minimum, the smaller of (1) 25% of its quota or (2) 10% of its net official holdings of gold and U. S. dollars as at the date when the Fund notifies members that it will shortly be in a position to begin exchange operations.

2. The Fund by a majority of the total voting power, however, make uniform proportionate changes in the par values of the currencies of all members, provided each such change

47. "International Fund and Bank", U. S. Treasury Department Report, August, 1944

is approved by every member which has 10% or more of the total of the quotas.

3. Members must hold the fluctuation of their currency values in the case of spot exchange transactions within 1%.

4. In general, operations on account of the Fund shall be limited to transactions for the purpose of supplying a member with the currency of another member in exchange for gold or for the currency of the member desiring to make the purchase. The Fund has the power to restrict a member's use of its facilities if it determines that such a member is using the foreign exchange obtained from the Fund for purposes contrary to those which the Fund is dedicated.

5. Each member shall have 250 votes plus one additional vote for each part of its quota equivalent to 100,000 U. S. dollars. No less than twelve Executive Directors shall be responsible for the general operations of the Fund. Five shall be appointed by the five members having the largest quotas; five shall be elected by members not entitled to appoint directors, other than the American Republics; two shall be elected by the American Republics not entitled to appoint directors.

The main points of the agreements of the Bank are:

1. Membership shall be open only to members of the International Monetary Fund, but any member may withdraw at

48. "International Bank and Fund", U. S. Treasury Department Report, August, 1944

any time. It was good news that the Boards of Governors of the

2. Authorized capital shall be US\$10,000,000,000 and shall be divided into 100,000 shares. Twenty percent of the subscription of each member is to be paid; the remaining eighty percent shall be subject to call only when required to meet the obligations of the Bank. Two percent of the payment shall be made in gold or United States dollars, the balance in the currencies of the member countries.

3. Subject to certain conditions, the Bank may guarantee, participate in, or make loans to any member or any political sub-division thereof and any business, industrial and agricultural enterprise in the territories of a member.

4. The total amount of outstanding guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed 100 per cent of the unimpaired subscribed capital, reserves and surplus of the Bank. Defaults shall be met at the discretion of the Bank up to not more than one percent of the total subscriptions per annum out of each member's unpaid subscriptions.

5. Each member shall have 250 votes, plus one additional vote for each share of stock held.

It was good news that the Boards of Governors of the World Bank and Fund held their first meeting on March 11, 1946, in Savannah, Virginia, and as Secretary Vinson of the

United States said: "If we let world economic relations break down again as they did in 1930, we may not, this time, be able to recover from the collapse".

As far as the foreign trade of the United States is concerned, the Bank has a special significance. Most of the loans made and guaranteed by the Bank in the first years of its operations will be loans from the United States and as such will provide an outlet for American exports. The possible amount of the loans and the rate at which they will be made become matters of crucial importance for postwar foreign trade. The Fund would make a less obvious but no less important contribution to maximizing the future foreign trade of the United States.

China wholeheartedly welcomes both the Fund and the Bank. China accepted a quota of \$550,000,000 although it was felt that \$600,000,000 would have been a more appropriate figure. As to the Bank, China was first assigned a quota of \$550,000,000. Owing to the fact that some delegations were not ready to accept in full the quota which they were assigned, China voluntarily accepted a quota of \$600,000,000 in order to help make the Bank a success. The Chinese government will be prepared to stabilize and maintain the par value of its currency and utilize as well as to protect foreign investment in the development of its natural resources. Under the provisions of the Fund, it will be possible for China to exchange

currency up to approximately \$137,000,000 a year for a period of five years. This will be of considerable importance in helping China iron out temporary maladjustments in her balance of payments.

Indeed, the success of the new scheme will surely contribute greatly to the fostering of trade between China and the United States as well as the rest of the world.

III. United Nations Conference and Its Influences

The United Nations Charter provides the guiding principles for securing and maintaining world peace. The first meeting of the General Assembly was held in London in January, 1946, and the meeting of the Security Council is still going on in New York. All peoples in the world are cherishing the hope that the Charter will work so that world peace will last.

In relation to international trade, an Economic and Social Council is established under the General Assembly. The function of the Council is to facilitate the solution of international economic, social and other humanitarian problems, with a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations. Article 62 of the Charter provides:

1. The Economic and Social Council may make or initiate studies and reports with respect to international, economic, social, cultural, educational, health, and related matters and may make recommendations with respect to any such matters to the General Assembly, to the Members of the United Nations, and to the specialized agencies concerned.
2. It may make recommendations for the purpose of promoting respect for, and observance of, human rights and fundamental freedoms for all.
3. It may prepare draft conventions for submission to the General Assembly, with respect to matters falling within its competence.
4. It may call, in accordance with the rules prescribed by the United Nations, international conferences on matters falling within its competence.

As a matter of fact, the recognition of the importance of economic and social factors in international relations is indicated in various international declarations and agreements. The Atlantic Charter pledges the furtherance of access to trade and raw materials (Art. 4), international collaboration to secure improved labor standards, economic advancement, and social security (Art. 5), the freedom of the seas (Art 7) and others. These principles are formally subscribed to in the United Nations' Declaration of 1942. Elaborating the doctrine of the furtherance of access to trade, the Lend-Lease Agreements provide that final settlements shall include provisions directed "to the elimination of all forms of discriminating treatment in international commerce; to the reduction of tariffs and other trade barriers". The United Nations Conference on Food and Agriculture subscribed to the principle of expanding economy, with the view of improving nutrition and living standards. At Bretton Woods international monetary and financial co-operation was agreed upon through exchange stabilization and assistance to capital flow aiming at the promotion of international trade and the maintenance of high levels of employment and real income.

The Philadelphia Declaration of the International Labor Conference endorsed measures, both national and international, "to avoid severe economic fluctuations, to maintain consumption at a high level, to ensure the productive investment of

all savings, to promote the economic and social development of the less developed regions of the world, to assure greater stability in world prices of primary products, and to promote a high and steady volume of international trade."

Because of closer inter-relation among nations brought about by improved means of communication, the effect of a nation's economic policy does not stop at its own shores or boundaries. National policies thus become matters of international concern. This being so, international collaboration in the Economic and Social Council and specialized international agencies is an essential step in the elimination possible causes of international friction.

To harmonize national policies with international obligations, however, is a difficult process. Past experience has shown that, especially in the realm of trade and currency, the temptation to disregard long-range international consequence is strong, when governments are faced with the short-sighted necessity of protection of the interests of their own nationals, even when it is clear that eventually the effect of such action is bound to react unfavorably upon their domestic economy. To provide a code for international trade policy, therefore, is a matter of great importance.

Detailed discussion on international trade did not take place at that Conference; a special conference will be convened later to deal specifically with the particular

problem. But, one can find at least four basic points:

First: the principle of raising living standard, full employment, and social security as objectives to be attained through international collaboration and national action.

Second: the principle of freer movement of goods among nations, including (a) reduction of tariff and other trade barriers; (b) prevention of dumping and unfair competition; (c) regulation of international cartels; (d) equal treatment and removal of discrimination; and (e) simplification of customs formalities.

Third: the principle of freer movement of capital and, within prescribed limits, of labor among nations.

Fourth: the principle that industrially less developed areas should receive special attention in a program of world economic development with the view of releasing the latent productive power and creating markets for world products.

In short, under the work of the Council, future trade between China and the United States is bound to be fruitful because the Council will have before it an opportunity to study the ways and means of promoting among the United Nations the co-operation necessary to bring about an effective channels of international trade. If we play our part properly in the economic and social field; if we solve the problems of co-operation in the economic fields, we shall demonstrate the

value of co-operation in all fields. Furthermore, the feeling is that the arrangements for international economic cooperation is very important for the success of the international organization.

Trade conference which has a vital significance in the future Bio-American trade. In fact, the expansion and balanced growth of international trade can not be achieved through monetary and financial plans alone. That is why the Bretton Woods Conference recommended that the participating governments should create the necessary conditions in the field of international trade relations for the attainment of the broad goals the Conference had set out to achieve.

Professor Alvin Hansen has a similar idea. He advocates the establishment of a continuing organization—an International Trade Authority—which will always be on the job to promote the freest possible development of world trade.⁴⁹ Its main function would be to undertake a comprehensive study of long-range programs looking toward trade policies that would contribute to general world prosperity, and a high level of international trade. The Authority would collect up-to-date information about trade policies currently in force in the different nations.

A study of the International Trade Organization Charter

49. Hansen, ALVIN H. "America's Role in the World Economy", W. W. Norton & Co., 1945, p. 94

50. Hansen: "America's Role in the World Economy", p. 95

IV: The Proposed International Trade Conference

Number 100

Closely related to the Economic and Social Council of the United Nations Conference is the proposed international trade conference which has a vital significance in the future Sino-American trade. In fact, the expansion and balanced growth of international trade can not be achieved through monetary and financial plans alone. That is why the Bretton Woods Conference recommended that the participating governments should create the necessary conditions in the field of international trade relations for the attainment of the broad goals the Conference had set out to achieve.

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A study of the International Trade Organization Charter

49. Hansen, Alvin H.: "America's Role in the World Economy, W. W. Norton & Co., 1945, p. 94

50. Hansen: "America's Role in the World Economy", P. 95

drafted by the United States was disclosed on November 9, 1945.

Member countries would undertake the following main items:

1. To accord to products imported from other members treatment no less favorable than accorded to domestic products with regard to matters affecting the internal taxation and regulations of the trade in goods;
2. To provide for products in transit through their territories, coming from or going to other member countries, freedom from customs and transit duties, from unreasonable transit charges and from discriminatory treatment of all kinds;
3. To subscribe to a general definition of the circumstances under which anti-dumping and countervailing may properly be applied to products imported from other member countries.
4. To give effect, as soon as possible, to agreed principles of tariff valuation designed to assure use of true commercial values as the basis for assessing duties and to co-operate in working out international acceptable valuation principles of a standardized character;
5. To give effect, as soon as practicable, to agreed principles looking toward simplification of

As to the last, customs facilities with a view to eliminating requirements which afford an indirect protection to domestic products;

6. To refrain from Governmentally-financed or organized boycotts or campaigns designed to discourage directly or indirectly importation or consumption protection to domestic products;

and

7. To provide for adequate publicity in regard to laws and regulations affecting foreign trade and maintain or establish national tribunals of an independent character to review and correct administrative customs action.

What is more important, the proposed conference will request member countries to enter into arrangements for the substantial reduction of tariffs and elimination of tariff preferences. The elimination of preferences must be taken in conjunction with adequate measures for substantial reduction of barriers to world trade and mutually advantageous international arrangements contemplated in that conference.

Two other major advantages are the limitation of import curbs and export subsidies. As regards the former, member countries may establish additional quantitative import restrictions as an aid to the restoration of equilibrium in their balance of payments, when confronted with an adverse balance.

As to the latter, member countries undertake not to take any action resulting in the sale of products in export markets at a price lower than the comparable price charged for like products in the same market, due allowance being made for difference in conditions and terms of sale, in taxation and other differences affecting price comparability.

The Principles set forth in the Charter to govern inter-governmental commodity agreements will be: (a) Member countries of the International Trade Organization which are largely dependent on imports of the commodities under agreement should have an equal voice in determining prices, etc., with the members who are interested in exporting the commodity. (b) The agreements should contain provisions for assuring that world assumption of the commodity is met "at reasonable prices". (c) The agreements should make certain that world requirements are met from sources which can supply the demands most effectively.

In short, the establishment of an international trade organization as a special United Nations agency is sure to have important effects on the expansion of world trade. It will certainly be of great advantage to the future trade between China and the United States.

PART V: THE PROSPECT OF SINO-AMERICAN TRADE

I. Post-War China's Industrialization

China is an agricultural country. There is little modern industry. Taking the amount of machinery per inhabitant in the industrial countries of northwestern Europe as 100, the corresponding index would be 405 for the United States and only between 0 and 1 for China.⁵¹ Large scale industry in China was concentrated in the great cities along the seaboard, particularly in Shanghai, and much of it was controlled by foreign capital.

In the postwar period, the question is of no less importance than that of national redistribution and utilization of the world's resources. If such a development can be effected by carefully considered international action it will not only improve the economic welfare of China but will also bring about stability in world social, economic and political situation. According to Professor Peffer, "social reconstruction in China, meaning industrialization and internal reorganization on a principle of economic quality, is a sine qua now of both equilibrium in China and international peace in the Far East."⁵² If industrialization is to be worth while in China it must

51. Stanley, Eugene: "World Economy in Transition", Council on Foreign Relations, N.Y., 1939, p. 70

52. Peffer, Nathaniels: "Prerequisites to Peace in the Pacific Relations", 1940, Chapter II

be carried out for the purpose of producing materials and goods to be consumed or used in the country to improve the standards of living.

China's industrialization will have great effects on the imports into the country. Apart from the ordinary consequences of population growth and technical progress, industrialization of the country will in the first few years, cause a sudden increase of plants and equipments to a level which will persist so long as industrialization proceeds at a steady rate. In the next ten to twenty years, the demand for imports may rise slightly and gradually come to its final level.⁵³ The general situation seems to be that industrialization in China is likely to have an expansionary effect on trade as a whole with the United States.

Now it is of paramount importance to have a review of China's resources which are significant in her post-war industrialization, as well as trade. First, at the present stage of technology, mineral resources seem to play a more important role than agricultural. The leading mineral resources needed for industrialization include coal, iron, oil, and copper.

The coal resources of China are more than sufficient for the country's needs in her postwar industrialization.

53. ~~The iron resources, though less abundant, are adequate to~~
Brown, A. J.: "Industrialization and Trade", the Royal
Institute of International Affairs, Oxford University Press,
1943 (pamphlet)

The iron resources, though less abundant, are adequate to support a steel industry. The country is self-sufficing in manganese and bauxite. In tungsten and antimony China is the world's largest producer. China is very poor in lead and zinc and comparatively poor in copper and petroleum.

China can be roughly divided into three metallogenetic provinces: North China, the Yangtze Valley and South China. In North China the old-Cambrian Schists and gnesies are represented by the abundance of quartz mines, in which sporadic occurrences of copper, lead, zinc, gold, and silver are sometimes found in subordinate quantities; along the Yangtze Valley and Central China are found here and there occurrences of intrusions of dioritic rocks, in which occur the famous contact deposits of iron ore, in addition to minor quantities of copper, lead and zinc; in South China the igneous intrusions are of granitoid type in which, or in the vicinity of which, occur in certain regions immense deposits of antimony, tungsten, tin and mercury. Broadly speaking, most of the famous coal mines are now situated in regions north of the Yangtze, in which occur also the sedimentary deposits of iron in contradistinction to the contact deposits of iron along the Yangtze Valley. Increased of coal production in "Free China" from 3,600,000 tons in 1937 to 5,700,000 tons in 1940. The output of government mines increased in 1942

to about 2 1/2 times its 1940 figure and the output of
 private mines to 1 1/4 times the 1940 amount. Naturally,
 nobody can really tell the exact reserves of iron in
 China because the survey is quite incomplete. In the
 early thirties, when the Chinese Geological Survey published
 its fifth general statement on the mining industry of China,
 it reported that China had about 1,000 million tons of
 iron ore reserves, of which 883 million tons were in
 Manchuria.⁵⁵

The following tables show the reserves of coal, iron
 petroleum (excluding shale oil), copper, bauxite, and
 manganese in China, the United States and the Soviet
 Union.⁵⁶

	Reserves					
	Coal	Iron	Petroleum	Copper	Bauxite	Manganese
China	990,000	1,694	1,515	4	278	5
U.S.A.	3,839,000	8,000	20,000	40	40	1.8
Russia	1,500,000	10,888	2,800	10	10	80
World	8,665,000	72,600	32,000	154	1,136	130

(In Percentage of World)

	Coal	Iron	Petroleum	Copper	Bauxite	Manganese
China	11.4	2.2	4.7	2.6	24.4	3.8
U.S.A.	45.4	11	64.3	26	3.5	1.4
Russia	17.3	15	8.7	6.5	1	61.4
World	74.1	28.2	77.7	35.1	28.9	66.7

55. "Mineral Resources of China", Geographical Review, October, 1944
 56. "Contemporary China", Vol. IV. No. 4

Coal, Iron and Steel

As coal and iron are the staple mineral commodities

for industrial economy, an examination into their reserves

in terms of per capita and per unit area is appropriate.

The following table gives the results of such an examination:

	Coal Reserves		Iron Reserves	
	Per Capita in Tons	Per Sq. Mile in Tons	Per Capita in Tons	Per Sq. Mile In Tons
China	2,152	222,870	3.7	381
U.S.A.	30,960	1,270,000	64	2647
Russia	9,450	196,750	65	1338
World	4,843	148,500	40	1244

The following two tables show China's productions before the Sino-Japanese war. It clearly indicates that China must, in the first place, industrialize her country.

Production of 1936
(In 1,000 tons, except petroleum in 1,000,000 barrels)

	Coal	% of World	Iron Ore	% of World	Manganese	% of World
China	30,000	2	3,654	2	23.8	0.4
U.S.A.	443,293	30.6	49,572	29.2	32.6	0.6
Russia	126,000	8.7	27,918	16.4	3,002	58.0
World	1,446,000		170,000		5,177	
	Bauxite	% of World	Copper	% of World	Petroleum	% of World
China	0	0	1	0.1	.002	0
U.S.A.	386.4	13.7	592.6	34.4	1089.7	60.3
Russia	203.2	7.2	83.0	4.8	202.3	11.2
World	2,289		1,719.5		1804.9	13.1

	Pig Iron	% of World	Steel Ingots & Castings	% of World
China	788*	0.9	384*	0.3
U.S.A.	31,029	34.6	48,478	38.7
Russia	14,400	16.0	16,300	13.1
World	89,802		124,794	

Next, tungsten occupies a position of great importance in the mining industry of China. For a number of years since the first World War China's production of tungsten has occupied first place in the world. The abundant supply of tungsten in China should guarantee a smooth development of the machine tool industry.⁵⁷ Other mineral resources on the list will be tin, mercury and antimony. Naturally most of the tin and mercury productions are for exports. During the last world war China contributed 52 per cent of the world's production of antimony. In the ten-year program of China's post war industrialization will include the yearly production of the following metals:⁵⁸

Lead	13,000 tons
Mercury	500 "
Zinc	2,000 "
Antimony	20,000 "
Tin	30,000 "
Tungsten	25,000 "

China's agricultural resources will be the chief source of China's food supply. Together with mining industry, agri-

* Including Northeastern Provinces.

57. "China at War", Chinese News Service, N.Y., August, 1945

58. "Contemporary China", Chinese News Service, July 10, 1944
Vol. IV.

culture will also be a major source of supply for raw materials for manufacturing industries. Most light industries have to acquire their raw materials from agricultural sources. The significant role that agriculture plays in the process of industrialization is that it provides purchases of goods made in industrial plants. There is no doubt that in the process of industrialization, China will see that farm machinery and chemical fertilizers are introduced into agriculture. Last, but not the least, point is that agriculture may, through the export of its products, help to start industrialization.

The agricultural production in China consists largely of crops, which alone use up nine-tenths of farm land (89.6%) compared with 41.9% in the United States.⁵⁹ The most important Chinese farm crops are rice, wheat and cotton. But from the point of view of meeting the need of China's industrialization, the great handicap on Chinese agricultural output, aside from the limited supply, is sporadic, unorganized production. Industrial crops are not graded or standardized. The failure to coordinate agricultural and industrial development has its serious repercussions on national production.

Therefore, in agriculture as well as in industry, the chief problem is to make the benefits of modern science and technology available to the farmer. In other words, it is here that industry can play a decisive role. Sufficient

59. Fong, D: "Postwar Industrialization of China", China Institute of Pacific Relations, 1931, p. 15

production of the right fertilizers and insecticides, plus cooperation of the part of individual farmers, particularly in regard to proper irrigation, could boost crop production 50% in no time.

Besides, land reform in China is necessary. The system of land ownership in China varies from province to province, even from district to district, in size of holdings, in type of crops, and in conditions of rent. Chinese Government accepts the general principle that eventually the tiller should own the soil, but the Government has also decided that such changes in land ownership shall be carried out in a legal way.

The development of industry and agriculture are mutual in benefits. It will be setting the cart before the horse if industry is to develop without simultaneous improvement in agriculture. There will not be forthcoming industrial raw materials from the farms, nor will there be a prosperous farming population essential to the development of a large domestic market to support the modern industries in China, if you do not do so.

The quest of post war industrialization is so urgent that a definite program has been drafted by economic and technical experts in China. Dr. Wong, Minister of Economic Affairs, outlined a ten year program which, in his opinion will be big enough to be of real value to China but modest

enough to be within the means of the people. Some of the
 60
 goals of this plan are stated as follows:

COMMODITIES	TEN-YEAR OUTPUT
Steel	14,000,000 tons
Coal	500,000,000 "
Gold	12,000,000 oz.
Steel Plates	5,000,000 tons
Cotton Yarn	29,000,000 bales
Railways	48,000 kil
Rails	3,360,000 tons
Locomotives	2,400 "
Steamships	3,000,000 tons

In order to carry on her post war industrialization, China must be provided with an economic environment within which a large-scale economy of a modern order can function.

Above all, she must be equipped with a modern system of transport which will bring within reach of her undeveloped resources and materials from other countries for industry.

The recent estimated figures by the Ministry of Communications call for 3.4 million metric tons of materials at an estimated cost of U.S.\$663 million to restore transportation and communication lines. The following list shows the import requirements for transportation and communications during
 61
 the first eighteen months beginning from 1946.

Estimated Needs (1,000 of metric tons)	Millions US\$
Railways.	1,775
Highways.	0,571
Postal Service.	10
Waterways	971
Telecommunications.	900
Total	4,227
	\$663

60. Shih, Kuo-heng: "China Enters the Machine Age", Harvard University Press, 1944, Chapter III.

61. Estimated by Ministry of Communications, published in "China Trade News", Chinese News Agency, N.Y., Nov., 1944

Other China's post war reconstruction programs as stated in President Chaing Kai-Shek's "China's Destiny" (in Chinese) published in 1944, include:

Items	First Ten years	Ultimate Goal
Railways	20,000 Miles	140,000 Miles
Highways	253,000 "	1,500,000 "
Motor Cars	3,000 "	24,000 "
Trucks	44,000 "	352,000 "
Autos	451,570 "	7,677,210 "
Steamship	3,043,300 Tons	14,417,400 Tons
Various Machinery	11,650,000 Units	11,500,000 Units
Telephone Lines	9,000,000 pair-klm	36,000,000 Pair-klm
Radio Stations	3,000	3,000
Radio Receivers	18,000,000	18,000,000
Telephones	2,250,000	9,000,000
Commercial Planes	12,000	120,000
Ports	700 Stations	1,200 Stations
Water Power	2,000,000 KW	10,000,000 KW
Housing	10,000,000 Units	50,000,000 Units
Textile Machinery	299,830 Units	999,400 Units
Hospitals	82,100	162,200

Yearly production after the tenth year of major mining, chemical and agricultural industries is expected to reach the following goal:

Mining Production

Coal	150,000,000 tons
Kerosene Oil	1,774,000 "
Steel	5,560,000 "
Copper	25,000 "
Lead	13,000 "
Zinc	2,000 "
Aluminum	55,000 "
Tungsten	25,000 "

Chemical Production

Auto Car Tires	2,000,000 Units
Paper Products	2,000,000 tons
Glass	1,500,000 "
Sugar	1,500,000 "
Salt	3,750,000 "

69. Chiang Kai-Shek: "China's Destiny" (in Chinese), 1944 p.150

Agricultural Production

Rice	756,000,000	barrels
Wheat	882,000,000	"
Beans	686,000,000	"
Cotton	23,000,000	"
Wool	1,680,000	"
Raw Silk	300,000	"
Other Food Products	1,003,000,000	"

In practice, the principles of China's postwar industrialism must be based on international, financial and technical cooperation. An undeveloped China with its rich agricultural mineral resources and unlimited manpower would bring international conflict over her control. In modern warfare, an agricultural land must inevitably surrender to an industrial land. All in all, international cooperation and foreign investments will be welcomed in China on the basis of equal treatment.

Business investments and (2) government obligations. The former amounted to U.S.\$2,500,000,000 about three-fourths of the total and the latter amounted to U.S.\$710,000,000, about one-fourth of the total. They are:

Country	Business Investments	Govt. Obligations
Great Britain	U.S.\$66,400,000	U.S.\$25,800,000
Japan	512,600,000	224,100,000
United States	155,100,000	51,700,000
France	95,000,000	97,400,000

The business investments by the United States was analysed by Professor Renner as follows:

Total business investments—U.S.\$55,122,773
 Deduct: Property from which
 business income is not
 ordinarily derived 1,590,000
 Investments of professionals 1,194,000

II. THE PROSPECT OF AMERICAN INVESTMENTS

Before the war, American investments in China were far overshadowed by those of the British ^{and the} Japanese. The total amount of foreign investments in 1931, for instance, was approximately U.S. \$3,240,000,000 according to a study of Professor C. F. Remer. Of this Great Britain and Japan each held more than 35%, the United States and France about 6% ⁶³ each.

Country	US Dollars	Percentage
Great Britain	1,189,200,000	36.7
Japan	1,136,900,000	35.1
United States	196,800,000	6.1
France	192,400,000	5.9

Most of the investments were chiefly of two forms: (1) direct business investments and (2) government obligations. The former amounted to U. S.\$2,500,000,000 about three-fourths of the total and the latter amounted to U.S.\$710,000,000, about one-fourth of the total. They are=

Country	Business Investments	Govt. Obligations
Great Britain	US\$966,400,000	US\$225,800,000
Japan	912,800,000	224,100,000
United States	155,100,000	41,700,000
France	95,000,000	97,400,000

The business investments by the United States was ⁷¹ analyzed by Professor Remer as follows:

Total business investments--US\$155,122,778	
Deduct: Property from which	
business income is not	
ordinarily derived	1,590,000
Investments of professional	
men	1,194,000

⁶³ "The Prospect of Foreign Investments in China", Contemporary China, Vol. III No. 19

Investments of 140 small firms 2,100,000

Leaving

Investments of 213 firms--US\$150,227,978

Among the business investments, it is shown in the following table that the import and export trade ~~occupies~~ the ^{is of} ~~importance~~ ^{first place} About 100 of the firms are engaged in it and they own about 52% of the capital invested by all American firms.⁶⁴

AMERICAN BUSINESS INVESTMENTS IN CHINA CLASSIFIED ACCORDING TO THE NATURE OF THE BUSINESS:

Nature of Business	No. of Firms	Percentage of the total	U.S. DOLLARS	Percentage of the total
1. Transportation				
a). Aviation, railway equipment, etc.	2		810,000	
b) Motor cars and accessories	19		3,790,296	
c) Shipping	5 5/6	12.7	6,199,622	
Total	26 5/6	12.6	10,799,918	7.2
2. Public Utilities	2	.9	35,200,000	23.4
3. Mining	1/2	.2	104,500	0.1
4. Manufacturing				
a) Textiles	9			
b) Others	19 1/3			
Total	28 1/3	13.3	20,509,095	13.7
5. Banking & Finance	9	4.2	25,320,280	16.8
6. Real Estate	10	4.7	8,478,240	5.6
7. Import and Export	99 1/3	46.7	47,748,240	31.8
8. Miscellaneous	37	17.4	2,067,395	1.4
	213	100.00	150,227,978	100.00

64. Remer: "Foreign Investments in China" p. 258

American investments in China suffered drastically from the effects of the Japanese invasion and from a currency-exchange depreciation of 81 percent during the first four years of the war. At the close of 1940 these investments had been down to \$46,000,000 and China declined from second to fifth place in importance in American Asiatic interests. The investments in public utilities, food-stuffs, petroleum, and banking establishments, nevertheless, remained large. The direct investment of American companies in China registered under the China Trade Act only totalled \$1,700,000 in 1940.

Since the conclusion of the Chinese-American treaty on January 11, 1943, which ended the century-old extraterritorial system, the American investment in China has come to a new era and has become a topic of great public interest. Naturally, China will welcome foreign investment. For the benefit of foreign investor, the Central Executive Committee of the Chinese Government passed the following resolution on September 11, 1943:

"Be it resolved that, to show a spirit of close cooperation with China's friendly powers, all restrictions applying to Chinese-foreign enterprises shall be revised. Hereafter, no fixed restriction shall be placed on the ratio of foreign capital investment in joint enterprises. In the organization of a joint Chinese-foreign enterprise, the chairman of the board of directors shall be a Chinese, but the general manager need not necessarily be a Chinese. The foregoing terms of cooperation shall become effective after an agreement by the parties

65. Li Choh-ming: "China's International Trade Statistics" (in Chinese) Nakai Social Economic Quarterly, April, 1940

concerned has been reached and the approval of the Chinese Government secured. At the same time aliens, in accordance with Chinese laws and regulations, and having received the sanctions of the Chinese Government, may finance their own enterprises in China. Negotiations for foreign loans for state enterprises shall be centralized. Private individuals may negotiate foreign loans for their own enterprises and such loan agreements shall become effective following the approval of the Government. The Government shall determine at an early date which categories of state enterprise may accept foreign investments and which categories may seek foreign loans."

In the International Business Conference, which met in Rye, New York, on November 10-18, 1944, the Chinese Delegation presented the views as to the nature of foreign investments in China, source of repayment, social objectives of capital and taxation.

Nature of investment--(1) Long-term credits: Chinese industrialists who plan to buy machinery and equipment naturally cannot make 100% cash payments for same. They will make part payments and expect the manufacturers to extend long-term credits, such credits to be reduced by installment payments extending over a period of ten or fifteen years. Such payments should be based on mutual agreements between manufacturers and buyers. (2) Direct investments: A. Foreign nationals may, in accordance with the stipulations of the basic principles of our temporary treaties, establish branch factories, branch business houses, or independent business enterprises. They will receive due protection under the Chinese law. B. Foreign investment with Chinese participation: (1) No restriction will be placed upon the percentage of foreign participation.

(2) Managements and technicians can be brought in with the investment.

Source of repayment--China should expand her export of agricultural and mineral products as well as miscellaneous specialized commodities as handcrafts, and should also endeavor to export her finished products abroad. China will encourage more overseas Chinese remittances. China will create a foreign exchange to pay for her importations.

Social objectives of capital--1. The investors should have the objective of working toward the social welfare of the debtor nation, such as improvement of the living condition of the masses. The demand for goods necessary for the betterment of the livelihood of the Chinese people will provide a good market for domestic and foreign products. 2. The borrowers should live up to the good faith of their suggestions. The arbitration body can use moral persuasion as well as legal procedure. It will also settle disputes between Chinese and foreign partners.

Taxation--In order to encourage foreign investment, China will provide a sound and simple taxation system to treat foreign investors exactly the same as the Chinese investors.

China's new law regulating the activities of foreign business firms has been revised to exclude a provision considered ruinous to the majority of private American

companies operating exclusively in China. The Chinese Government has acted to enable the China Trade Act companies to continue to carry on. The new law will shortly come into effect as soon as the final legislative revisions are completed by the legislative body concerned. On March 4, 1946, the National Government issued the temporary foreign trade regulations which is used in conjunction with temporary regulations governing foreign exchange transactions. It has been welcomed by American and Chinese businessmen as spelling a healthy future for China's economy. It establishes three classifications of imports: unrestricted, licensed, and prohibited. In the prohibited category are all products made wholly of cotton, and silk wearing apparel and a long list of luxuries ranging from powder puffs and perfumery to embroidered goods and others. Foreign goods requiring import licenses include the less expensive types of passenger automobile, sugar, kerosene and motion pictures. All articles not listed as licensed or prohibited may be imported without restriction, but watches, wines, beer, spirits, cigars, jewelry and other ornaments are subject to a 50% luxury surtax on the existing tariff rates. A Temporary Import Planning Committee under the Supreme Economic Council will determine a coordinated import program based on three factors--China's capacity to pay in foreign exchange and Chinese currency, the degree of need or usefulness of a specific import, and China's balance of international

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payments. (See Appendix)

Hence

In a nutshell, there are indications that under these circumstances Americans will be prepared to invest substantial sums in the development of industries in China. It is anticipated that postwar American investment will assume these forms:

1. Investment in Chinese state enterprise--It is certain that railways will be a state enterprise; it is probable that air lines, public utilities, and iron and steel works will be state-controlled, though they may not be state-owned and state-operated. In all these fields the Chinese Government will welcome American investment, which may be in corporate stocks or fixed-interest-bearing bonds under the protection of the new regulations discussed in the preceding paragraphs.

2. Investment in Chinese private industry--such as: textile industries, the food industries, the metallurgical industries and many others. In these industries China will have to import modern machinery and equipment. Chinese private corporations will welcome American investments, either loans or capital shares.

3. Direct business investment--Subject to Chinese laws and regulations, American corporations, completely under foreign direction and managements, will be permitted to do business in China. They will be treated on the same

66. News released by the Chinese News Service, Sa 263, March 11, 1946

basis as Chinese private corporations. Before the war there were many foreign factories and a considerable number of import and export corporations in China. These will be fully protected.

In short, the Chinese themselves have time and again expressed the hope that China may become an industrial nation through the effort of international co-operation. American investments in China will surely play the leading role.

In the economic development will be needed urgently.

In the first place, no doubt, the most important item will be machinery and tools. For example, the Chinese want to build a transportation and communications system. China has less than 30,000 miles of railways and about 75,000 miles of highways, only 40% of which are surfaced.⁶⁷ No more than 1,000,000 gross tons of merchant shipping are operating and much of the tonnage has been destroyed by the war. Tele-communications facilities are even poor. Both telephone and telegraph lines together total under 100,000 miles.⁶⁸

To meet the minimum need of an improved transportation and communications system in China, it will require many thousands of tons of steel rails and of locomotives, freight

67. Chao Kung-Quan: "China's Struggle for Railway Development", John Day Co., 1933, Chapter III.
68. "Contemporary China", Chinese News Service, Vol. III, No. 2.

III. POSSIBLE IMPORTS FROM THE UNITED STATES

It is obvious that a turning point has been reached in Sino-American trade relations. The programs of the past are beginning to be crystallized into definite plans for action.

What will be the possible imports from the United States in the immediate future years of the post war era, then? They may be seen in Chapter I of this same part, China's post war industrialization. Things required in her industrial development will be needed urgently.

In the first place, no doubt, the most important item will be machinery and tools. For example, the Chinese want to build a transportation and communications system. China has less than 20,000 miles of railways and about 67 75,000 miles of highways, only 40% of which are surfaced. No more than 1,000,000 gross tons of merchant shipping are operating and much of the tonnage has been destroyed by the war. Tele-communications facilities are even poor. Both telephone and telegraph lines together total under 69 100,000 miles.

To meet the minimum need of an improved transportation and communications system in China, it will require many thousands of tons of steel rails and of locomotives, freight

67. Chang Kia-Ngau: "China's Struggle for Railway Development", John Day Co., 1943, Chapter III

68. "Contemporary China", Chinese News Service, Vol. III, No. 21

and passenger cars, merchant vessels and air-plane, great merchant vessels and building equipments. Electrical machinery and textile machinery will certainly also be imported.

Moreover, although China is an agricultural country yet her way of production is not modern or scientific. She must increase her agricultural production and improve its quality. American agricultural experts who have been in China believe that through improved methods the yield per acre and per man can be increased several fold. This will require extensive use of farm complements, fertilizers, and insecticides, irrigation equipment and improved seeds and live stock. In the initial phases of her development, China must buy large quantities of these products abroad. Therefore, it is estimated that for machinery alone, in the first three years, China will spend abroad around US\$ 1,000,000,000, for the restoration and expansion of her industries.

The war has created a great shortage of textile goods in China. Like cotton, petroleum products will continue to depend upon foreign sources of supply before the transportation facilities are restored so as to bring these resources inland. Other important items are cereals and flour; chemical products; paper and paper products; housing

69. "China--A New Economic Frontier for the United States", Amerasia, Sat. 22, 1944

materials such as timber; and many others.

In his latest book, "China's Post War Market", Mr. Chih Tsang gives a complete analysis of the postwar trade of China with detailed explanation. An estimate of China's postwar imports are classified into three important groups, namely: capital goods, producers' goods, and consumers' goods. The following lists show the possible yearly values of postwar imports for China proper, Manchuria and Formosa. ⁷⁰

I. Capital Goods (yearly value in US\$1,000)

Items	China Proper	Manchuria	Formosa	Total
Machinery and tools	\$ 67,200	20,000	3,000	90,200
Iron and steel	40,000	12,000	2,000	54,000
Railway equipment	20,000			20,000
Non-ferrous metals	6,000	1,000		7,000
Automobiles and bicycles	14,000	10,000	2,000	46,000
Airplanes and ships	4,000			4,000
Timber	12,000	3,000	1,000	16,000
Cement and related prod.	2,000	500	1,000	3,500
Total. . .	\$165,200	\$46,500	\$9,000	\$240,000

II. Producers' Goods
(yearly value in US\$1,000)

Items	China Proper	Manchuria	Formosa	Total
Petroleum products	\$ 30,000	4,000	2,000	36,000
Dyes and paints	10,000	2,000	500	12,500
Chemicals and pharmaceuticals	16,000	4,000	14,000	34,000
Rubber & Rubber Goods	4,000			4,000
Coal and fuel	1,200			1,200
Wood, bamboo and rattan	2,300			2,300
Raw Cotton	10,000	5,000		15,000
Wool	3,000			3,000
Total. . .	\$ 76,500	\$15,000	\$16,500	\$108,000

⁷⁰. For further explanation see Tsang, Chih: "China's Postwar Market".

III. Consumers' Goods
(yearly value in US\$1,000)

Items	China Proper	Manchuria	Formosa	Total
Food, beverages and tobacco, cereals & flour	\$ 27,000	13,000	2,000	42,000
Sugar	5,000	1,000		6,000
Tobacco	4,500	1,000	1,000	6,500
Fishery and sea products	3,000	3,000	1,500	7,500
Fruits and Vegetables	1,500	3,000	2,000	9,500
Canned Goods and animal products	3,000			
Medical substances	2,000			2,000
Wine and beverages	500	1,000	300	1,800
Total	\$ 46,500	22,000	6,800	\$75,300

IV. Other Consumers' Goods
(yearly value in US\$1,000)

Items	China Proper	Manchuria	Formosa	Total
Cotton piece goods and cotton yarn	\$ 25,000	15,000	5,000	45,000
Woolen goods and yarn	4,000	3,000	100	7,100
Rayon goods	5,000	4,000		9,000
Flax, ramie, hem and jute products	5,000	5,000	1,500	11,500
Paper and Paper Products	15,000	6,000	1,500	22,500
Hides, leather and other animal substances	1,000			1,000
Glass and chinaware	1,000	800	300	2,100
Fats, oils and resin	1,500			1,500
Photographic goods	2,000	500		2,500
Sundries	27,000	34,400	11,300	72,700
Total. . .	\$ 86,500	68,700	19,700	174,900
Grand Total .	\$ 374,700	152,200	52,000	578,900

As summary in the above lists, the postwar immediate needs in importation to China will be:

1. Machinery and Tools	US\$90,200,000
2. Iron and Steel	54,000,000
3. Railways equipment, Automobiles and Bicycles	46,000,000
4. Cotton Goods	45,000,000
5. Cereals and Flour	42,000,000
6. Petroleum Products	36,000,000
7. Chemicals and Pharmaceuticals	34,000,000
8. Paper and Paper Products	22,500,000
9. Timber	16,000,000
10. Raw Cotton	15,000,000
11. Flax and Jute Products	11,500,000
12. Rayon Goods	9,000,000
13. Fishery and Sea Products	7,500,000
14. Woolen Goods	7,100,000
15. Non-ferrous Metals	7,000,000

These are the first fifteen main items among imports for China. The values estimated were based on the prewar price level. Probably a 30% to 50% increase should be given to each figure in terms of postwar prices. All in all, China has great need for American goods especially during the period of her postwar industrialization.

than in Manchuria. It is because Nanjing has a population of only 35 million, that 170,000 million bushels gave a considerable surplus for export.

Wood oil.—Generally speaking, about 70% of China's wood oil exports in the prewar years went to the United States. In 1937, the value of wood oil exported to America reached US\$6,300,000. The first shipment of wood oil arrived in the United States in 1869 with an invoice value of \$62. The record shows that the total amount imported

IV. Principal Exports from China To The United States

The trade between China and America is of a complementary nature. America will be in a position to export capital goods urgently needed in China's reconstruction and industrial program. China's export to the United States will consist mostly of agricultural products. Among the long list of commodities, China's chief exports will be soybeans, wood oil, tea, silk, bristles, and wool.

Soybeans---The average export value exported from Manchuria between the year 1936 and 1938 was \$64,330,000. For many years soybeans have been Manchuria's most important export and will probably remain so in the postwar period. It is grown in northern Manchuria as well as in Southern Kwangtung. Contrary to the wide-spread American belief, there are more produced in China south of the Great Wall, than in Manchuria. It is because Manchuria has a population of only 35 million, that its 200 million bushels give a ⁷¹ considerable surplus for export.

Wood oil---Generally speaking, about 70% of China's wood oil exports in the prewar years went to the United States. In 1937, the value of wood oil exported to America reached US\$26,300,000. The first shipment of wood oil arrived in the United States in 1869 with an invoice value of \$62. The record shows that the total amount imported

71. Yu, Tsune-Chi: "Economics Geographic Problems in Manchuria", America Book-Stratford Press, Inc., N.Y. 1924, p.54

in the season of 1869-1870 was 381,000 pounds. Fourteen years later, 1883-1884, the amount of import increased to one million pounds. It exceeded the level of 5 million pounds in 1903-1904. After that period the growth was rapid, reaching 53 million pounds in 1910-1911, 107 million pounds in 1928, and the top figure of 175 million pounds was reached in 1937.⁷² With the outbreak of the war in 1937, the annual production of wood oil in China was around 150,000 metric tons about 2/3 were exported to the United States. With its shipment as a security, a credit of \$25,000,000 was arranged in 1938 with the Export-Import Bank of Washington. It was paid nearly two years before the last installment on the loan was due. It proves the need ~~for~~ this product. The United States annual consumption is well over 100,000,000 pounds and there are no substitution for it. Along the Gulf coast, from Florida into Texas, are nearly 200,000 scattered acres of wood (tung) plant. But the tung tree is hard to raise in the United States soil and climate.⁷³ It is reported that no satisfactory substitutes have yet been found which can equal wood oil at economic price levels.

Tea—Many centuries ago China pioneered the development of tea industry. With characteristic thoroughness methods of producing tea which became famous throughout the world.

72. How Bang: "History of Tung Oil", China Monthly April 1945 P.17

73. "Tung Oil Wanted", Time, April, 1942

the world, and until the early 1880's China was the world's largest tea exporter. In that decade her annual exports totalled 279,000,000 pounds. Then a steady decline set in. Year by year China shipped less and less tea to world markets. During the decade commencing with 1890 her export of tea averaged 222,000,000 pounds. In the next ten years the amount had shrunk to 184,000,000 pounds and until finally in 1940 her exports reached an all time low of 76,000,000 pounds.⁷⁴ This was due mainly to the slow improvement of the quality of tea, and also to the competition of India, Ceylon, Java and Sumatra. But in recent years the Chinese National Tea Corporation is employing the foremost experts obtainable, not only in actual tea making but also in research, marketing and promoting methods. China produces normally about 900,000,000 pounds of tea annually. This is nearly half of the eleven tea grown countries in the world. As a result of the war, less will be available from the East Indies. Therefore, in the immediate postwar years, China should have an excellent opportunity to increase her tea business if she is in a position to ship tea in quantity. Besides, the return of Formosa will also increase the available supply of tea for export.

Silk---China will continue to export silk because there will be less supply from all silk producing countries. China will, at least, retain her old position relative to

74. "The China Economic Annual", The Asia Statistics, published in Tokyo, Japan, 1941 p. 100

Japan and other silk-producing areas, and with Japanese silk losing in popularity, Chinese silk should have a good opportunity to regain some of the lost ground of the past. Most Chinese industrialists confidently believe that if silk production can be extensively boosted, about 200,000 quintals may be exported to the United States annually. Assuming that silk may be sold at US\$700 per quintal (about US\$2.3 per pound), the annual silk export to the United States would be worth US\$140,000,000. ⁷⁵

Bristles---Before the war, the average export of bristles for China proper was \$7,215,000. America needs at least 5,000,000 pounds of bristles a year. ⁷⁶ The post-war trade for bristles depends on two factors: the amount of production and the development of substitutes in consumption areas abroad. For the first question, bristles for export grow on old hogs, and hogs will not be allowed to grow old if people can afford to eat them young. Chinese bristles will maintain their quality. As regards the substitutes, the most serious threat will come ^{from} _^ the synthetic field, as synthetic bristles. So long as the price of the Chinese bristles does not stand too high above the price of synthetic bristles, wide uses will no doubt

75. "The China Monthly," Chinese News Service, N.Y. Vold. VI, No. 12 Dec. 1945, p. 27

76. Foreign Commerce Weekly, July 11, 1940, p. 10

continue to obtain for the natural quality. By stabilizing the price of bristles and standardizing their lengths in such a way as to meet the specific needs of manufacturers, it is believed that Chinese bristles, by virtues of their unique qualities, will stand a good chance of revival in competition with synthetic bristles.

Wool---The chief producing districts are Inner Mongolia and the Northwestern provinces. Most Chinese wool is particularly suitable for and chiefly used in making carpets and rugs, about 70% of which were shipped to the United States in the prewar years.⁷⁷ During the war considerable quantities of wool have been accumulated in the interior and will be available for export once the transportation routes are restored to normal condition.

In addition to these five Chinese exportable products---tung oil, silk, tea, wool and bristles---which used to make up no less than 70 per cent of China's total export, tin, tungsten and other mineral resources are exportable as described in Chapter I of the same part. Mr. Chih Tsang also gives an estimate of China's postwar exports in his book---"China's Postwar Market"---which summarizes the China's main exportable items as follows:⁷⁸

77. Li Choh-ming: "China's International Trade Statistics" Nakai Social and Economic Quarterly, April, 1937

78. See Tsang, Chih: "China's Postwar Market" for detailed Explanation

I. Agricultural Products (yearly value in US\$1,000)

Items	China Proper	Manchuria	Formosa	Total Values
Soybeans		45,000		45,000
Wood Oil	30,000			30,000
Sugar		20,000	20,000	
Rice		20,000	20,000	
Tea	15,000		4,000	19,000
Beancake	1,000	16,000		17,000
Peanuts	3,100	3,000		6,100
Fruits and nuts	2,000		3,700	5,700
Cotton, raw	5,000			5,000
Sesamum seed	3,000	2,000		5,000
Other beans	1,000	3,000		4,000
Medical plants	3,500			3,500
Peanut oil	3,000			3,000
Perilla oil		3,000		3,000
Bean oil		3,000		3,000
Corn		3,000		3,000
Millet	50	3,000		3,050
Vegetables	2,000		800	3,800
Tea oil	2,000			2,000
Perilla seed		2,000		2,000
Sorghum		2,000		2,000
Cotton seed oil	1,200			1,200
Bran and fodder	100	1,000		1,100
Bamboo	1,000			1,000
Ramie	1,000			1,000
Hempseed		1,000		1,000
Binseed	800			800
Straw Braid	700			700
Castorseed		500		500
Tobacco leaf	500			500
Molasses			400	400
Buckwheat		400		400
Rapeseed	300			300
Total	US\$76,250	US\$87,900	US\$48,900	\$213,050

II. Forest and Animal Products

(Yearly value in US\$1,000)

Item	China Proper	Manchuria	Formosa	Total
Furs and skins	12,000	3,000		15,000
Egg products	10,000			10,000
Silk, raw, wild and waste	9,000	1,000		10,000
Bristles	6,000	1,000		7,000
Sheep wool	6,000			6,000
Feathers	2,100			2,100
Sausage casing	2,000			2,000
Cattle hides	1,400			1,400
Timber		300	1,000	1,300
Campnor			1,200	1,200
Camel wool	1,000			1,000
Human hair and nets	1,000			1,000
Camphor oil			500	500
Hogs	500			500
Meats	500			500
Woodpulp		300		300
Nutgalls	300			300
Lard	250			250
Total	US\$52,050	US\$5,600	US\$2,700	US\$60,350

III. Mineral Products

(Yearly value in US\$1,000)

Item	China Proper	Manchuria	Formosa	Total
Tin	8,000			8,000
Coal	500	5,000	500	6,000
Tungsten	4,000			4,000
Antimony	3,500			3,500
Magnesite		2,000		2,000
Copper ores			2,000	2,000
Salt	300	1,000		1,300
Iron and steel		1,000		1,000
Ammonia sulphate		1,000		1,000
Total	US\$16,300	\$10,000	\$2,500	\$28,800

IV. Manufactured and Handmade Products

(Yearly value in US\$1,000)

Item	China Proper	Manchuria	Formosa	Total
Linen goods	5,000			5,000
Wool carpets and rugs	1,500			1,500
Silk piece goods	1,000			1,000
Silk pongees	1,000			1,000
Cotton yarn	1,000			1,000
Cotton and textile goods	1,000			1,000
Curios and antiques	1,000			1,000
Hats	500		400	900
Alcohol			500	500
Silk embroidery	500			500
Mats	500			500
Paper	500			500
Chinaware	200			200
Fire works	100			100
Total	US\$14,000		US\$900	US\$14,900

V. Other Merchandise

US\$20,000	10,000	5,000	35,000
GRAND TOTAL. .	US\$178,600	113,500	60,000

At a glance of the above lists, the first ten items among the important Chinese exports in the postwar period will be:

Soybeans	US\$45,000,000
Wood oil	30,000,000
Rice	20,000,000
Tea	19,000,000
Furs and skins	15,000,000
Egg and egg products	10,000,000
Raw silk	10,000,000
Tin	8,000,000
Bristles	7,000,000
Wool	6,000,000

CONCLUSION

The growth of America's trade with China may be traced from the original venture into the Port of Canton where foreigners were hedged about with irksome restrictions, down through the opening of the Treaty Ports, on to present-day conditions. The adventure of the ships which rounded Cape Horn bringing furs to trade for Chinese goods constitutes the opening epoch in the long history of Sino-American trade. American commission houses were gradually established in various big cities in China to care for the increasing trade and to obtain information.

During the eighteen years from the end of China's first war with Japan to 1914, foreign investments in China were considerably expanded. The first World War gave the Chinese an opportunity to start their own enterprises since imports from Europe and the United States were almost completely stopped. Among the most successful that came into being were cotton and textile mills, flour mills and machine shops. However, owing to the limited capital available, these industries were necessarily run on a small scale. With the occupation of Manchuria by Japanese in 1931 China's export was greatly reduced. The last World War caused further losses to China's young industries. But, as a result of these global struggles and the frightful losses and misery that followed in the manager of any joint enterprise should be a valiant

in their wake, people are becoming increasingly aware of the fact that among the factors that made for international prosperity, not the least is foreign trade.

Limited as have been the benefits of foreign trade on China's economic development, they have shown the way a new economy should be organized. Events of the war years have convinced the Chinese people of the immediate necessity of developing their natural resources. History also has taught them the important lesson that a balanced economic development can only come about when change is engendered by forces within the country. In other words, the Chinese realize that there must be a plan for post-war program of reconstruction which should aim at a logical and coordinated development of transportation, industry, mining, agriculture among many other things.

In order to carry out that program, China will require the assistance of a large amount of foreign capital, without which the rate of industrialization will be too slow to meet the country's needs. For this reason, the Chinese Government has passed a set of new regulations containing, among other provisions, the following two important points: first, the abolition of the rule that Chinese capital should constitute 51 per cent and foreign capital only 49 per cent in any joint enterprise; second, the abolition of the requirement that the manager of any joint enterprise should be a Chinese.

The revision of Chinese Company Law will eliminate discrimination against American companies and improve the prospects of trade between the United States and China.

It is a significant fact that American business-men and industrialists have never before been so keen about developing foreign market as the means of absorbing their surplus capital and materials. They understand that China will want machinery, tools and finished products. But they also believe that China can not continue to buy American goods for any length of time and on any basis worth measuring unless the United States will purchase from China or extend dollar credits. American needs adequate supplies of raw materials. "Stuff for stuff" is to the advantage of the United States because if a nation wants to sell it must also buy. They know that however impressive the world trade may become, alone it cannot guarantee domestic prosperity.

Naturally, China is going to pay back foreign capital with her export. Her export trade before the war consisted mainly of agricultural products and a certain amount of minerals. From now on, China will be able to add new articles for export, but in the immediate years to come she must export again agricultural products and minerals. With the elimination of Japan as an industrial power in the Far East, a commercial vacuum will be left in the areas formerly dominated by Japanese trade. This must be filled by Chinese industry.

When her industrialization is well under way, new and better products can be exported and new market cultivated. Reversely, in pre-war period, Japan and Germany were the two biggest selling countries in China. It is obvious that from now on the United States will expand its exports to China, superseding the trade of Japan and Germany.

Furthermore, with the establishment of the International Fund and International Bank for Reconstruction and Development, the Economic and Social Council of the United Nation Organization, and the proposed International Trade Conference, the relationship of Sino-American trade will be more intimate than ever before. An international stabilization fund with large resources would obviate the necessity for a redistribution of international assets and might contribute substantially to confidence in national currencies. While some new international monetary machinery may make an effective contribution to international monetary stability in the short run, the effective basis for such stability must be found in a revival of long-term capital movement. In that case, the Bank will fulfil the need. With financial aid from the Bank, China will speed up her economic reconstruction and will increase her exportable products. The proposed International Trade Organization would be expected to work closely with the Fund and the Bank as well as other international organizations to bring about a more effective use of world

because of weakened Japanese competition. China will seek

resources and division of labor based upon the utmost development of resources, both human and material throughout the world. Indeed, it would hardly be an exaggeration to say that all forms of discriminatory treatment in international tariffs and other trade barriers are bound to be eliminated.

As regards the main items for export to China from the United States, as discussed in Part V, capital goods will be required more than anything else. It is a basic fact that China's postwar industrialization will provide markets for both American capital and products---quantities of machinery of all types, rail and communications equipments, fuel and other merchandise. The United States Commerce Department has recently predicted that imports into China proper, Manchuria and Formosa, will reach one billion dollars annually within the next six years. The United States should at least account for a quarter of this market.

China's export to the United States in the immediate postwar years will still be such exportable agricultural products as wood oil, silk, tea, wool and bristles. A favorable market is predicted for wood oil, shipments of which from China proper averaged \$21,000,000 a year in the 1920's. Before the last war China exported raw silk to the value of over \$12,000,000 annually. Despite the decreased consumption, due to competition of rayon and nylon, it is believed that this figure can be considerably exceeded because of weakened Japanese competition. China will seek

a large share of international tea pooling arrangement, especially since Formosa tea now will be a Chinese product. Similarly, wool and bristles are expected to find a brisk demand in the United States. Certain minerals and ores, of which China is the major producer, particularly tin, antimony and tungsten, will again be available. The United States alone formerly brought from China more than \$5,000,000 a year of these three items. Of course, there are many minor items. The exportation of Manchurian bean and bean products will be an important item in obtaining more foreign exchange to pay for urgently needed imports.

The first substantial commercial shipments of Chinese merchandise since the war arrived in San Francisco on the S. S. "President Grant" of the American President Lines on January 6th, this year. The cargo included 500 bales of silk, 575 drums of wood oil and 250 cases of bristles, along with cotton goods, silk piece goods, furs and skins, linen goods, porcelain ware, straw braid, feathers, curios, hemp hats and miscellaneous Chinese merchandise. This shipment marks the first step in the postwar trade between China and the United States. With the restoration of normal conditions in China the flow of Chinese exports to this country will increase steadily.

As a matter of fact, the United States should encourage China's export trade and buy large shares of her agricultural

products and certain amount of mineral resources. It is believed that only by mutual exchange may the two countries receive mutual benefit.

In short, in reviewing the economic policy of the two countries, with the creation of various important international organizations concerning trade, in the light of what China now needs, and from the standpoint of what the United States has and how far she is willing to commit, the trade relationship between the two countries will indeed have a very bright future.

Article 2. Commodities not included in the following

are free imports:

- (1) Commodities listed in the Appended Lists A, B and C; and
- (2) Commodities listed in the Appended List of commodities prohibited from importation.

Article 3. Licensed imports include commodities listed in Appended List A. Importation of such commodities shall be licensed by the Maritime Customs, which will issue permits for the importation of such commodities.

Article 4. Prohibited imports include:

- (1) Commodities listed in the Appended List of Commodities Prohibited from Importation, with the exception of those with approval and permission of competent authorities; and

PROVISIONARY REGULATIONS OF CHINA'S
IMPORT AND EXPORT TRADE

The following is the full text of the temporary regulations governing China's import and export trade together with appended lists, promulgated by the Supreme National Defense Council of the Chinese National Government on February 26, 1946:

CHAPTER I - IMPORTS

Article 1. Imports are divided into the following

Article 3. three categories:

- (1) Free imports;
- (2) Licensed imports; and
- (3) Prohibited imports.

Article 2. Commodities not included in the following

Article 5. are free imports:

- (1) Commodities listed in the Appended Lists A, B and C; and
- (2) Commodities listed in the Appended List of commodities prohibited from importation.

Article 3. Licensed imports include commodities listed

Article 5. in Appended List A. Importation of such

Article 5. commodities shall be licensed by the

Article 5. Maritime Customs, which will issue permits

Article 5. for the importation of such commodities.

Article 4. Prohibited imports include:

- (1) Commodities listed in the Appended List of Commodities Prohibited from Importation, with the exception of those with approval and permission of competent authorities; and

(2) Commodities listed in the Appended List B shall be absolutely prohibited from importation; but those which have already been ordered before the publication of the present regulations and which can be transported into this country within (30) days may be declared as exceptions to the Chinese Maritime Customs with ten (10) days after the publication of the present regulations.

CHAPTER II - EXPORTS

Article 5. All commodities, except those listed in Appended List C, are allowed to be exported freely; but exporters shall, prior to declaration at the Maritime Customs, submit the certificate issued by the designated banks certifying that foreign exchange will be realized from the commodities to be exported, to the Maritime Customs for examination. Commodities valued less than twenty-five United States dollars (U.S. \$25) and not to be exported as business transactions are to be excepted.

CHAPTER III - TEMPORARY IMPORT PLANNING COMMITTEE

Article 6. A Temporary Import Planning Committee is to be established under the Supreme Economic Council, to be composed of the following ministers and directors-general of administrations:

- (1) Chairman of the Supreme Economic Council, to be chairman of the Committee;
- (2) Minister of Economic Affairs, to be Vice-chairman of the Committee;
- (3) Minister of Finance;
- (4) Minister of Communications;
- (5) Minister of War;
- (6) Minister of Food; and
- (7) Director-General of the Chinese National Relief and Rehabilitation Administration.

When matters concerning other organizations are to be discussed by the Committee, the chairman of the Committee may ask representatives of the organizations concerned to attend the meeting.

Article 6. The Powers of the Temporary Import Planning Committee are as follows:

- (1) To judge and decide on important commodities necessary to be imported during the period of rehabilitation;
- (2) To compile and list the quantities, place, and dates of arrival of commodities ordered or to be ordered or purchased;
- (3) To draw up plans of importation of commodities according to the following conditions:
 - (A) National financial and economic power; (B) Whether the needs of import are urgent or not and the extent of utilization; and (C) The balance of barter and credit agreements concluded with foreign countries;
 - (4) To prevent various organizations from obtaining or purchasing commodities

Following are the regulations governing imports in foreign countries;

(5) To decide on the sources of supply and to utilize fully enemy reparations and surplus supplies of United Nations Relief and Rehabilitation Administration for surplus raw materials;

(6) To direct the distribution and marketing of commodities imported or to be imported; and

(7) To examine the need of imports of those organizations so as to harmonize them in order to avoid duplication and unnecessary expenditure.

Article 8. Staff members of the Committee are to be furnished by the organizations concerned.

CHAPTER IV - SUPPLEMENTARY REGULATIONS

Article 9. Under the direction of the Committee, the Maritime Customs may:

(1) Administer the importation of commodities listed in Appended List A; and

(2) Execute the importation of the exempted commodities listed in Appended List B as stipulated in paragraph 2 of Article 4 of the present regulations.

Article 10. The Maritime Customs may establish a license department to issue import licenses and shall coordinate closely with the Central Bank of China.

Article 11. The present regulations are to become effective from the date of promulgation.

Following are the three lists appended to the temporary regulations governing import and export trade:

LIST A

Part One. Articles which may be imported only after obtaining a special license from the Maritime Customs:

Item
Passenger motor cars (other than those on the prohibited list) and chassis thereof.
Sugar, cube and sugar (loaf), candy sugar.
Tobacco leaf
Kerosene oil.
Cinematographic film, developed.

Part Two. Articles liable to a luxury surtax of fifty per cent on the existing tariff rates (no special license is required for these articles).

Item
Watches.
Wines, Beer, spirits, table waters, etc.
Cigarettes, cigars, snuff and chewing tobacco, prepared tobacco.
Jewelry and ornaments, N. O. P. F.
Pearls, real and imitation.
Precious and semi-precious stones (not including uncut and unpolished.)

LIST B

Luxuries the import of which is prohibited:

Item

Imitation gold or silver thread,
on cotton.

Lace, trimmings, embroidered goods,
and all other material used for decorative
or ornamental purposes; and all
products made wholly thereof (cotton;
flax; ramie; hemp; jute; wool; silk).

Woolen carpets, carpets, carpeting and
all other floor coverings, pure or mixed.

Imitation gold and silver thread, on
silk, pure or mixed.

Silk knitted tissue, pure or mixed.

Silk velvets, plashes and all other
pile clothes, pure or mixed.

Silk tash goods, pure or mixed, N.O.P.F.

Silk clothing and all other silk articles
of personal wear and parts and accessories
thereof, N. O. P. F.

Automobiles with seven-passenger
capacity or less whose net F.I.O.B.
factory cost to dealers exceeds
U.S. \$1,200.00 or equivalent, and
chassis thereof.

Tusks.

Manufactures of Tusks.

Curios and antiques.

Damasceneware, Satsumaware and
lacquerware.

Decorative or ornamental materials
or products, N. O. P. F. (including
spangles, tinsel and tinsel wire,

mechanics trimmings, etc.).

Maincure sets and parts thereof; powder puffs and cases and vanity cases.

Perfumery; cosmetics.

Toys and games.

(A) Umbrellas and sun- and (C) shades:
 (a) with handles wholly or partly made of precious metals, ivory mother of pearl, tortoise shell, agate, etc., or jeweled; (b) with all other handles, silk and silk mixtures.

* * *

LIST C

Items the export of which is prohibited unless permission is granted by the Government through the Maritime Customs:

1. Government controlled mineral products, namely, the metallic ores and smeltered metal of tungsten, antimony, tin and quicksilver.
2. Silver coins, silver bullion, gold bullion, subsidiary coins of nickel and metal alloy, copper cash and coin and copper remelted therefrom.
3. Salt.
4. Live wild animals and birds of all kinds (including game.)
5. Bird skins with feathers.
6. Antiques.
7. Original writings of Dr. Sun Yat-sen, ancient Chinese books and archives of Government departments.
8. Rice, paddy, wheat, wheat flour and manufacture thereof.
9. Cotton yarn and cloth.

GUIDING PRINCIPLES CONCERNING FOREIGN COMPANIES IN CHINA

Following is a translation of the guiding principles of the Revised Company Law concerning foreign companies which were adopted by the Supreme National Defense Council on June 18, 1945. The English version has been released for public reference pending the promulgation of the full text of the law; an amended translation will be issued, if any modifications are made in the final phases of the legislative procedure.

ARTICLE XV. Foreign companies in this Law refer to companies or corporations of all kinds which are run for profit, with their head offices outside, and their branch offices inside, of the territory of the Republic of China.

ARTICLE XVI. No foreign company can apply for a license unless it has been duly registered and incorporated according to the laws of its own state and, in the absence of a license, no branch office shall be established in China.

ARTICLE XVII. For any of the following causes, no license shall be granted to a foreign company:

(A) Its object or business is repugnant to the laws, or subversive of the public order, or contrary to the decent customs of the Republic of China;

(B) The locality where it intends to establish a branch office is not open to a foreign residence, or the business it purports to be engaged in is forbidden of foreign nationals;

(C) The foreign company has no intention of setting up a branch office inside of the territory of the Republic of China, or no head office in its own state, or when having both no correct address is given thereof;

(D) When it aims at evading the laws of its own country, or making use of the laws of a third country to acquire juristic personality with a view to obtaining a license to transact business in China and enjoying the rights and privileges of nationals of the third country concerned;

(E) When any of the particulars contained in Article XVIII have been falsely entered, or the country to which the applicant foreign company belongs does not grant licenses to Chinese companies.

ARTICLE XVIII. Any foreign company, in applying for a license, should declare the following particulars and submit, along with the application, all related documents;

(A) Address of its head office in its own country and address or addresses of its branch offices inside of Chinese territory;

(B) Scope of business and total amount of capital;

(C) Name of the company and the class to which the nature of its business belongs;

(D) The articles of incorporation and a facsimile photograph of the registration certificate issued by its own country, and dates of incorporation and registration;

(E) Name, address and nationality of the representative, proxy or agent of the company;

(F) Transcript copy of special law or decree in case the company has been formed thereunder;

(G) Other particulars required by Chinese law and decree;

All of the documents mentioned above, with the exception of name lists, shall be accompanied by their respective Chinese versions.

ARTICLE XIX. The application of a foreign company for a license shall be made by the executive shareholders or a member of the board of directors of its head office, or its representative or agent in China, or the proxy of any one of the persons mentioned above. The applicant should submit his nationality certificate and letter of authorization, or power of attorney from the head office.

ARTICLE XX. Any foreign company, upon being granted a license, shall according to law, be entitled to the same rights and privileges as well as the same obligations as Chinese companies of a similar category.

ARTICLE XXI. Any licensed foreign company may lease or purchase real estate needed for the transaction of its

business, after it has obtained the approval of the competent authority, and on condition that its own country grants the same rights and privileges to Chinese companies.

ARTICLE XXII. A foreign company which has failed, at the time of application for a license, to register particulars which should have been declared or to register changes which have been made in the particulars, shall not bring any legal action against others on the basis of such undeclared particulars.

ARTICLE XXIII. Any licensed foreign company undesirous of carrying on its business should have its license revoked but, pending the revocation of the certificate, it should remain bound to all of its obligations

ARTICLE XIV. Because of any of the following causes, a license issued to a foreign company may be revoked by the competent authority:

(A) It fails to do business six months after it has been granted a license, and has not filed an application for postponement, or suspends business of its own accord for a period of more than one year after it has started to operate;

(B) A declaration of bankruptcy has been made;

(C) The documents and statements submitted at the time of application for a license are later found to be incorrect or false;

(D) The head office of the company concerned has been liquidated;

(E) The company is found to be violating this or other laws.

ARTICLE XXV. Any foreign company, carrying on a business inside of Chinese territory as a company without having obtained a license according to this Law, shall be liable to a fine and suspension of business.

ARTICLE XXVI. Any licensed foreign company shall be organized and shall conduct its business in accordance with its articles of incorporation or, in the absence of such, in accordance with the laws of its own country. However, all its business dealings are amenable to Chinese laws and decrees.

ARTICLE XXVII. Register of shareholders and all books and accounts of a licensed foreign company are subject to inspection, when and if circumstances so demand, by the competent authority.

ARTICLE XXVIII. Besides this Law, all foreign companies are subject to such other laws as govern their respective business activities.

ARTICLE XXIX. Provisions for penalties or fines are not treated under a separate special section, but are incorporated in the various articles of this Law.

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